

Government Support for Small, Micro and Medium Enterprises (SMME's) as a Venture for Business and Economic Development in South Africa

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According to the South African Reserve Bank (2007), South Africa's small enterprises operate in global, regional and local economic environments which may not always be supportive to their growth prospects. With the end of apartheid, SA has become firmly part of the global economy, and trends in the world economy play an increasingly important role in the growth prospects of businesses across the size spectrum. SMMEs are relatively less able to deal with 'shocks' in the global economy and are therefore particularly vulnerable. Moreover, small business is often a minor link in global value chains, sometimes supplying narrowly specified goods and services to other suppliers that are themselves very low down on the global supplier value chain. In order to obtain maximum functionality of this sector, government support has never become crucial. The aim of this paper is to look into the various measures that the South African government has thus far undertaken to support this sector.

INTRODUCTION AND BACKGROUND

South Africa's transformation initiatives provided immense opportunities for the previously disadvantaged groups and individuals to become meaningful participants in the economic development of the country. In redressing the legacy of the past, the new government through the Ministry of Trade and Industry initiated a wide-ranging consultation and research process. This process culminated in the production of a Discussion Paper on *Strategies for the Development of an Integrated Policy and Support Program for Small, Medium and Micro Enterprises in South Africa* in October 1994 and the White Paper in March 1995. The White Paper was based on the understanding that South Africa has a vast, largely untapped potential of entrepreneurs, encompassing all races, all sectors and all the provinces (Kirsten 1995:1). In 1996, the National Small Business Enabling Act was passed (Watson & Godfrey, 1999).

Small businesses compared to big business worldwide, faces a wide range of constraints and problems, even in effective functioning market economies. These constraints mainly relate to legal and regulatory environment, access to markets, finance and business premises (at affordable rentals), the acquisition of skills and managerial expertise, access to appropriate technology, quality of the business infrastructure in poverty stricken areas and, in some cases, the tax burden. The historical past in South Africa however, made the situation worse, particularly on entrepreneurs in rural areas and on women (White Paper 1995:12). This problem is further compounded by high rural-urban influxes by young people and professional practitioners seeking survival and livelihood in cities (Watson & Godfrey, 1999).

It should however, be briefly reflected on what the situation was like under the minority rule. A little over a hundred years ago, in South Africa itself, black entrepreneurs were doing very well. Black entrepreneurs dominated the transport industry, and there were many superb farmers. Their knowledge of the care of breeding of cattle attracted international attention (Hetherington 1994:23–24). In addition, the dawn of the 21st century, Africa was confronted with debilitating and excruciating position characterized by the following hallmarks: debt burden, underutilization of human resources, a deformed public sector, vast unemployment, concentration of ownership in the hands of the few, marginalization of the majority from economic activity as well as massive income and social inequalities. The author further asserts that the foregoing legacy of apartheid has affected the South African economy and society. In recognition of these dynamics, the then Minister of Trade and Industry, currently Minister of Finance, Hon. Trevor Manuel, made the observation that, Small, medium and Micro enterprises represent an important vehicle

to address the challenges of job creation, economic growth and equity in South Africa. He further went on to point out that SMME's are playing a critical role in absorbing labor, penetrating new markets and generally expanding economies in creative and innovative ways provided an appropriate enabling environment is created (White Paper, 1995).

With the restructuring and downsizing of large enterprises, small, medium and micro enterprises (SMMEs) have come to play an increasingly important role in South Africa's economy and development. The sector has grown significantly. In 1996 around 19% of those employed were in the informal sector of the economy. By 1999 this had risen to 26%. The Government has therefore targeted the SMME sector as an economic empowerment vehicle for previously disadvantaged people. As a result, SMME's have received significant attention and investment, ranging from the establishment of state-initiated projects to supportive legislation, a variety of funding institutions and government incentives through the Department of Trade and industry (DTI). The National Small Business Act, passed in 1996, helped to establish many of the supportive structures now in place.

GOVERNMENT INITIATIVES AND SUPPORT STRUCTURES FOR SMME'S IN SOUTH AFRICA: A SYNOPSIS

As earlier indicated, the apartheid system did damage of immense proportions to black business emancipation and SMME development. Key to government of the SMME sector in South Africa is to encourage and support entrepreneurship. This point was one of the key findings of the GEM 2005 report relating to South Africa's Entrepreneurial Activity which, according to the report, South Africa lies at the end of the scale scoring a mere 1.3%, followed by Mexico (1.9%) and Hungary (2.0%) (p10).

Despite the amount of small business activity available, South Africa still does not fare very well as an entrepreneurial nation when compared to other countries around the globe, this is mostly attributed to the failures of small businesses, including entrepreneurial capacity which is largely attributed to low levels of entrepreneurial education. This is reflected in the Global Entrepreneurship Monitor (GEM), which in its (2005) edition shows South Africa lying 25th out of the 34 countries that were surveyed. Perhaps more daunting is the fact that our small business start-up rate is almost the poorest out of all the developing countries in the survey (only Brazil has a lower rate of start-ups than RSA does) (GME; 2005).

The following are some of the initiatives and support structures by the South African government; *Centre for Small Business Development (CSBD)*, *Ntsika Enterprise Promotion Agency (Ntsika)*, *Khula Enterprise Finance Limited (Khula)* and the *Companies and Intellectual Property Registration Office (CIPRO)*,

CENTRE FOR SMALL BUSINESS DEVELOPMENT

The Center for Small Business Promotion (CSBP) is a Chief Directorate that falls directly under the Department of Trade and Industry. It is responsible for all policy related to the SMMEs and supports programs that are directly and indirectly assisted by government. The Center also coordinates the implementation of the framework within central government, to mobilize the necessary funds and supervise the establishment of other new institutions, proposed in the White Paper.

Provincial SMME desks

The Center for Small Business Promotion gave a directive to all nine provinces to form Provincial SMME Desks at provincial level. The divisions are the first point of contact of small business people with the government. The purpose of these divisions is to give SMME support in all the provinces.

NTSIKA ENTERPRISE PROMOTION AGENCY

The Ntsika Enterprise Promotion Agency (NEPA) is mandated to provide a wide range of non-financial services to local service delivery groups on a 'wholesale' basis, meaning delivery of resources to local providers (that is, in the different provinces and their regions) that work directly with SMMEs. These

services that are offered by accredited local service providers include institution building of these organizations, training programs for entrepreneurs, mentoring of individual firms, marketing, procurement advice and technology assistance (Carana Report 1999). Examples of local service providers are the Local Business Services Centres (LBSCs), Non-Governmental Organisations (NGOs), Educational Institutions and Community Based Organisations (CBOs).

Local Business Service Center (LBSC)

Economic development at local level cannot be overemphasized. This is where there is much work in terms of SMME development. The LBSCs, defined in terms of their functions, are owned and managed by the local business people. Their services include training, marketing and linkages, counseling and referrals and information gathering and dissemination.

The major challenges to these centers are in developing SMMEs in rural communities. These SMMEs operate in a sea of poverty and unemployment; most of them are survivalist enterprises; there is poor infrastructure, outflow of wealth to larger urban centers and reduced access to markets. Rural SMMEs require a targeted strategic set of interventions, which will require support from national, provincial as well as local levels of government. This aspect is in recognition of the recommendations of the 2005 GEM report that “.....since ‘once size does not fit all’, in order to be effective, entrepreneurship programs must be adopted and tailored to prevailing national circumstances” (p11).

Tender Advice Center (TACs)

Tender Advice Centers provide non-financial support to small businesses in the area of market access and procurement. They provide information about government tenders, counselling and support service to entrepreneurs. Examples of this support include assistance in the completion of tender documents and the provision of advice and information on tender opportunities. These services are made available to SMMEs through workshops and seminars about tendering procedures. The TAC program is run by accredited organisations around South Africa (http://www.brain.org.za/SUPPORT/tender_advice.html).

Manufacturing Advisory Centers (MACs)

Manufacturing adds much value to growing economies. In a country where the previously disadvantaged majority (i.e. blacks) were deprived the opportunity to engage in the manufacturing sector/business, the importance of Manufacturing Advisory Centers (MACs) cannot be overemphasized. These centres provide information and advice to small and medium manufacturing firms.

Others

Other service providers that work closely with Ntsika are among others, Non-Governmental Organisations (NGOs), Educational Institutions and Community Based Organisations (CBOs)

KHULA ENTERPRISE FINANCE LIMITED

Khula Enterprise Finance Limited was established in 1996 under the Companies Act, in terms of a Department of Trade and Industry initiative. It is an independent, limited liability company, with its own board of directors and is dedicated to improving access to finance for the SME's in South Africa. This implementing agency for providing capital for small business is a response to the seemingly inability of banks to support small enterprises, especially those in disadvantaged communities. Khula took over the credit guarantee facility from the former Small Business Development Corporation (now Business Partners). Its main role is to maximize access to finance for SME's in a way that leads to the development of sustainable small and medium business, job creation, economic growth and equity.

The other main activity of Khula is to provide 'wholesale' finance to the NGOs that offer micro loans to starter entrepreneurs. This is done through the development of Retail Financial Intermediaries (RFIs) that are financially sound, with the commitment and the capacity to serve the SMME sector.

Retail Financial Intermediaries (RFIs)

As a wholesale organisation, Khula does not lend money directly to the small and micro business people. It makes finance available to the SMMEs through three of its lending programs. These programs are the Credit Guarantee Scheme, the Retail Financial Intermediaries (RFIs) and the Micro Credit Outlets (MCOs).

The RFIs borrow money from Khula to lend to the SMMEs, who must repay the loan to these organisations according to the agreed terms and conditions of the loan. Small business operators can borrow amounts of R5 000 to R50 000. Micro Credit Outlets (MCOs) lend money to very small entrepreneurs, mostly in the rural areas and informal settlements in urban areas (Directory of Retail Financial Intermediaries).

KhulaStart

KhulaStart is an intervention strategy by Khula Enterprise Finance Limited whose objective is to promote greater access to micro credit in rural areas. It is a group-lending scheme for the lower end of the micro-enterprise market. It targets historically disadvantaged communities, particularly women in rural areas and informal sectors. KhulaStart is based on a United Nations Development Program (UNDP) initiative called MicroStart and has been adapted to suit the conditions prevailing within rural South Africa (KhulaStart Brochure).

Credit Guarantees

Khula Credit Guarantee provides a range of guarantee products to banks in the private sector whereby Khula will assume a portion of the risk associated with lending into the SMME sector. In order to raise capital to acquire assets or for working capital, banks may require applicants to provide guarantees to secure the loan. Khula will furnish these guarantees to approved applicants with three products: Individual, Institutional and Portfolio Guarantees. Loans of between R60 000 and R600 000 can be guaranteed through this scheme (<http://www.khula.org.za/credit.htm>).

Semi-government organizations and the private sector also offer assistance to SMMEs. The Industrial Development Corporation (IDC) for example, assists in tourist development, venture capital, low interest empowerment and emerging entrepreneur schemes. The South African Bureau of Standards (SABS) through its missing link program offers quality assistance and awareness to SMMEs and the Council for Science and Industrial Research (CSIR) through their National Manufacturing Center provides product improvement and manufacturing assistance to SMMEs. There are also small business units in many banking institutions and companies that assist small businesses in one way or another (<http://www.khula.org.za/credit.htm>).

Other major products, over and above those mentioned above include; Credit Indemnity Scheme, Land Reform Empowerment Facility, Mentorship Programme and Joint Ventures.

The 2005 GEM report expresses concern not just about South Africa's rate of new start-ups, but also about the sustainability of those start-ups – many of them just don't last. The report also allude to the fact that early entrepreneurship-to-established firm ratio is the lowest of all the GEM countries sampled.

THE COMPANIES AND INTELLECTUAL PROPERTY REGISTRATION OFFICE (CIPRO)

This is a sub directorate of the Department of Trade and Industry (DTI) and is responsible for matters relating to the registration of new businesses. There are no formal procedures for the registration of sole proprietorship and partnership. However, close corporations and companies follow certain registration processes. All South African close corporations are governed by the Close Corporation Act (Act 69 of 1984). The Act is aimed at providing information on the formation, registration, incorporation management, control and liquidation of close corporation (CIPRO 2004-2005)

CONCLUDING REMARKS

South Africa's small enterprises, for them to have a meaningful role in global, regional and local economic environments is in no doubt a daunting task for those involved i.e. entrepreneurs, government and other functionaries, in order to achieve growth prospects. As indicated earlier SMMEs are relatively less able to deal with 'shocks' in the global economy and are therefore particularly vulnerable. In order to achieve a vibrant entrepreneurial society and activity in South Africa, the government's efforts thus far will have to be applauded though it will be a long-drawn struggle that will take time, it will also have to increase the proportion of people who have confidence in their skill, knowledge and experience in starting and managing new enterprises to achieve business growth and economic sustainability.

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